CONGRESSIONAL BUDGET OFFICE
PAY-AS YOU-GO ESTIMATE

Revised June 19, 1998

H.R. 2400
Transportation Equity Act for the 21st Century

As cleared by the Congress on May 22, 1998

SUMMARY

H.R. 2400 (enacted as Public Law 105-178 on June 9, 1998) reauthorizes programs administered by the Federal Highway Administration, the National Highway Traffic Safety Administration, the Federal Transit Administration, the Federal Rail Administration, and the Research and Special Programs Administration. The act provides new contract authority and authorizes appropriations for the affected surface transportation programs for fiscal years 1998 through 2003, establishes new discretionary spending caps for highway and mass transit spending categories, and extends excise taxes for transportation. It also lowers the existing limits on discretionary spending. In addition, H.R. 2400 amends veterans benefits, federal student loan programs, the Social Services Block Grant, and the Temporary Assistance for Needy Families (TANF) program.

Several provisions affect direct spending or receipts (revenues); therefore, pay-as-you-go procedures apply to the act. Many of these provisions are contained in Title VIII, which also contains a provision (section 8102) exempting that title from pay-as-you-go procedures.

In total, CBO estimates that H.R. 2400 will reduce outlays from direct spending by about $11 billion over the 1998-2003 period (and by about $49 billion over the 1998-2008 period). Most of the provisions creating that estimated savings, however, are exempt from pay-as-you-go procedures. CBO estimates that the spending provisions subject to pay-as-you-go procedures will result in a net decrease in direct spending of $145 million over the 1998-2003 period. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 2400 leads to a net reduction in federal revenues—all subject to pay-as-you-go procedures—of $209 million over the same period.

In addition, H.R. 2400 increases the total amount of discretionary spending that is allowed under the Balanced Budget and Emergency Deficit Control Act (Deficit Control Act). It establishes two new categories of discretionary spending—one for highway spending and the

other for mass transit spending. It also reduces the caps that will now apply to other discretionary spending. The spending allowed under the new caps for transportation programs exceeds the reduction in the amounts allowed for other discretionary spending by $15.3 billion over the 1999-2002 period. (The Deficit Control Act's caps on discretionary spending expire after 2002.) Because these changes do not directly affect budget authority or outlays, CBO believes they are not subject either to the existing discretionary caps or the pay-as-you-go procedures of the Deficit Control Act.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 2400 on direct spending and revenues is shown in Table 1. The estimated pay-as-you-go effects are summarized in Table 2. (The act's effects on spending subject to appropriation are not shown or discussed in this pay-as-you-go estimate. CBO has not yet completed an estimate of discretionary spending authorized by this legislation.)

On June 17, 1998, CBO transmitted a pay-as-you-go estimate for H.R. 2400, but that estimate contained errors in the totals of direct spending and revenue effects shown in Table 1. This estimate corrects those errors and supersedes the June 17 estimate.

BASIS OF ESTIMATE

Several provisions of the legislation affect direct spending or receipts. Many of the provisions that affect direct spending are exempt from pay-as-you-go procedures—as specified by section 8102 of the act. The provisions that are subject to pay-as-you-go provisions of the Deficit Control Act are presented first, and those that are exempt under H.R. 2400 follow.

TABLE 1. Estimate of Direct Spending and Revenue Effects of H.R. 2400, the Transportation Equity Act for the 21st Century (Public Law 105-178)

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN DIRECT SPENDING											
Change in 1998 obligations											
Estimated Budget Authority	15	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-440	-429	242	287	122	55	12	33	12	3	0
Bridge Transfer and Rehabilitation											
Estimated Budget Authority	0	10	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	10	0	0	0	0	0	0	0	0	0
Veterans' Benefits											
Estimated Budget Authority	0	-253	-704	-1,692	-2,680	-3,659	-4,635	-6,102	-6,605	-7,125	-8,612
Estimated Outlays	0	-259	-708	-1,693	-2,681	-3,660	-4,636	-6,102	-6,605	-7,125	-8,613
Student Loans											
Estimated Budget Authority	365	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	165	160	0	0	0	0	0	0	0	0	0
Social Services Block Grant and TANF											
Estimated Budget Authority	0	0	0	-680	-680	-1,100	-1,100	-1,100	-1,100	-1,100	-1,100
Estimated Outlays	0	0	0	-625	-675	-960	-1,000	-1,000	-1,000	-1,000	-1,000
Aquatic Resources Trust Fund											
Estimated Budget Authority	0	0	0	0	0	32	34	45	48	49	50
Estimated Outlays	0	0	0	0	0	8	18	28	38	43	47
Total											
Estimated Budget Authority	380	-243	-704	-2,372	-3,360	-4,727	-5,701	-7,157	-7,657	-8,176	-9,662
Estimated Outlays	-275	-518	-466	-2,031	-3,234	-4,557	-5,606	-7,041	-7,555	-8,079	-9,566
CHANGES IN RECEIPTS (REVENUES) [a]											
Tax-Exempt Financing											
Estimated Revenues	0	-1	-10	-46	-83	-90	-59	-24	-17	-20	-25
Amendments to the Internal Revenue Code											
Estimated Revenues	0	-26	3	13	11	20	17	32	32	36	30
Total	0	-27	-7	-33	-72	-70	-42	8	15	16	5

a. Revenue estimates provided by the Joint Committee on Taxation.

TABLE 2. Estimate of Pay-As-You-Go Effects of H.R. 2400

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Changes in outlays						
Change in 1998 obligations	-440	-429	242	287	122	55
Bridge Transfer and Rehabilitation	0	10	0	0	0	0
Aquatic Resources Trust Fund	0	0	0	0	0	8
Total outlay changes	-440	-419	242	287	122	63
Changes in receipts	0	-27	-7	-33	-72	-70

Provisions Subject To Pay-As-You-Go Procedures

Direct Spending for Federal-Aid Highways Program. Section 1102 alters the 1998 obligation limitation provided in the Department of Transportation and Related Agencies Appropriations Act of 1998 (Public Law 105-66). The revision not only lowers the total obligation limitation but also changes how the funds are to be distributed. CBO estimates that those changes will reduce outlays in 1998 and 1999 and will increase outlays in 2000 and several subsequent years by shifting some of the outlays from 1998 and 1999 into those later years. In total, lowering and revising the distribution of 1998 funds will reduce outlays by $179 million over the 1998-2003 period.

In addition, H.R. 2400 increases the amounts of 1998 funding for highways that is exempt from the obligation limitation. That increase stems from a combination of provisions in H.R. 2400 and the Surface Transportation Extension Act of 1997 (Public Law 105-130), which provided $15 million in exempt 1998 funding for the program known as minimum allocation. H.R. 2400 provides $639 million a year of exempt funds for that program—the same amount as assumed in the baseline. Because the $639 million level for 1998 is in addition to the $15 million previously provided by Public Law 105-130, this provision results in an increase in outlays of $15 million over the 1999-2003 period.

Bridge Transfer and Rehabilitation. One of the provisions of section 1212 directs the Secretary of the Army to transfer title of a bridge near St. Georges, Delaware, to the state of Delaware. If the transfer occurs within 180 days of enactment, the Army would provide $10 million to the state for use in rehabilitating the bridge. Based on information from the Army, CBO assumes the transfer occurs within 180 days, resulting in direct spending totaling $10 million in 1999.

Tax-Exempt Financing. Title I, subtitle E, establishes the Transportation Infrastructure Finance and Innovation (TIFIA) program and a pilot program for state infrastructure banks (SIBs). While TIFIA makes changes to the Internal Revenue Code, it provides for various forms of credit enhancement to attract private capital to large transportation projects. Similarly, the SIBs program allows certain states to elect to use a portion of their highway funds to provide capitalization for state infrastructure banks, which provide credit enhancement to certain transportation infrastructure projects that are expected to generate their own source of funding during operation. TIFIA and SIBs also allow states, with the consent the Secretary of Transportation, to enter into interstate compacts to provide for the financing of multistate projects. The contemplated projects may be financed with taxable or, under certain conditions, with tax-exempt debt, and are expected to be self-supporting.

Because the TIFIA and SIBs programs are designed to leverage new investment financed (at least in part) by additional tax-exempt debt, the Joint Committee on Taxation estimates that they will result in a loss in federal revenues of $230 million over the 1999-2003 period.

Amendments to the Internal Revenue Code. Title IX of H.R. 2400 extends the motor fuel taxes and related Highway Trust Fund taxes through September 30, 2005. Because the baseline (as defined in the Deficit Control Act) assumes that expiring excise taxes dedicated to trust funds are extended, the extension has no effect on projected revenues. Several of the Title IX provisions affect revenues. Their effects were estimated by the Joint Committee on Taxation. The ethanol excise tax exemption, which was included in the baseline at its current level, was extended at a lower level. The 1.25 cents per gallon tax on railroad diesel fuel was repealed. The list of qualified transportation fringe benefits was expanded, but indexing of the maximum allowed amount was delayed. In total, these provisions increase estimated revenues by $20 million over the 1999-2003 period.

Section 9005 extends through fiscal year 2005 transfers of excise taxes on motorboat and small engine fuels from the Highway Trust Fund into the Aquatic Resources Trust Fund (ARTF). This section also increases deposits to the ARTF of some of the amounts earned from these excise taxes that are currently deposited in the general fund for deficit reduction purposes. Under current law, 6.8 cents of the 18.3 cents per gallon earned from excise taxes on motorboat and small engine fuels are deposited in the general fund. Section 9005 reduces transfers to the general fund (and raise deposits to the ARTF) by 1.5 cents per gallon beginning in fiscal year 2002 and by 2 cents per gallon beginning in fiscal year 2004. CBO estimates that the phased-in increase in the portion of motorboat and small engines fuels taxes transferred to the ARTF raises direct spending from the fund's sport fish restoration account by $8 million in 2003 and increasing amounts thereafter.

Provisions Exempt From Pay-As-You-Go Procedures

Section 8102 exempts provisions in Title VIII from pay-as-you-go procedures. The effects of Title VIII on direct spending are provided below.

Veterans' Benefits. Title VIII, subtitle B, makes several changes to veterans' benefits. In total, CBO estimates that the provisions of this subtitle reduce outlays from direct spending by $9 billion over the 1999-2003 period.

Elimination of Benefits Due to Nicotine-Dependence. Section 8202 overturns recent decisions by the Department of Veterans Affairs (VA) entitling veterans to disability compensation benefits if they suffer health problems from nicotine dependence that began or became worse during military service. Although there is some question whether the provision as written would achieve its objectives, this estimate is consistent with Congressional intent. CBO estimates that savings will total $500 million in 1999 and $10.5 billion over the 1999-2003 period.

Increases in Veterans' Readjustment Benefits. The act boosts rates in several veterans' readjustment programs. Section 8203 raises the Montgomery GI Bill basic benefit by 20 percent, increasing outlays by $165 million in 1999 and by $860 million over the 1999-2003 period. In 1999, the full-time rate will increase from about $440 per month to $528 per month.

Sections 8204 and 8205 increase adaptive housing and automobile grants for certain veterans who have service-connected disabilities and meet eligibility criteria. CBO estimates that housing grants will increase by about 8 percent and automobile grants will increase by about 6 percent at a combined cost of $4 million per year over the 1999-2003 period.

Increases in Veterans' Income Security Programs. Section 8206 increases aid and attendance allowances by $600 annually for certain veterans currently receiving pension benefits. VA provides these special allowances to certain severely disabled veterans if they require the regular assistance of another person. CBO estimates that this provision will increase direct spending by $35 million in 1999 and by $190 million through 2003. Data from VA indicate that approximately 85,000 veterans currently receive aid and attendance under the pension program. Because current law requires VA to reduce to $90 the monthly pension benefits of certain veterans who are in Medicaid nursing homes, about 20,000 veterans will not receive the increased allowance until 2003 when that requirement expires.

Section 8207 reinstates the eligibility for dependency and indemnity compensation (DIC) of certain remarried surviving spouses of veterans. Without this legislation, DIC would terminate if a surviving spouse remarries. CBO estimates that section 8207 will cost $37 million in 1999 and $423 million through 2003.

Section 8208 changes the treatment of the special separation benefit (SSB). DoD makes a variety of separation and severance payments to servicemembers. The laws that authorize separation payments also prohibit veterans from receiving those payments and veterans' disability compensation if both stem from a single period of service. For veterans who received a lump-sum separation payment, that prohibition delays the receipt of the disability compensation until the separation payment is offset. Under section 653 of the National Defense Authorization Act for Fiscal Year 1997, payments received after September 30, 1996, are offset by the value of the bonus minus the amount of federal tax withheld from the payment, but separation payments made prior to September 30, 1996, must be offset by the full amount of the bonus. Section 8208 of H.R. 2400 extends the more favorable treatment of SSB to payments made before September 30, 1996.

Near-term costs are negligible because most disability compensation would still be deferred. By 2003, however, many of these SSB recipients will begin qualifying for veteran's compensation. Estimated costs in 2003 will be about $4 million. (The costs of this provision will end in about 2012; we estimate that costs will cumulate to about $100 million over the 1999-2012 period.)

Student Loans. Section 8301 changes the interest rates for borrowers and lenders on all new loans issued in the federal student loan programs between July 1, 1998, and October 1, 1998. Provisions affecting federal student loans are assessed under the requirements of credit reform. As such, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated. The interest rate changes included in H.R. 2400 increase program costs by $165 million in 1998 and by $160 million in 1999.

Without the change made by H.R. 2400, a new formula for establishing the variable interest rate on guaranteed and direct student loans was scheduled to take effect in July 1998.[1] The interest rate received by private lenders would have been the interest rate on bonds of comparable maturity plus 1 percentage point.[2] Borrowers would have paid the same rate, but no more than 8.25 percent. To the extent that the yield to lenders exceeds the rate paid by borrowers, the federal government pays lenders the difference, which is called a special

1. Before July 1998, borrowers in the guaranteed and direct student loan programs pay the bond equivalent of the 91-day Treasury bill rate plus 2.5 percentage points while the borrower is in school, grace, and deferment and 3.1 percentage points when the borrower is in repayment. The interest rate cap is 8.25 percent. The interest rate on guaranteed and direct parent loans is the bond equivalent of the 365-day Treasury bill rate plus 3.1 percentage points, with a cap of 9 percent.

2. The CBO baseline assumes that the rate on bonds of comparable maturity is the 10-year bond rate. Recently, the Administration has indicated that it expects to use a blended rate of 10-year and 20-year maturities.

allowance. In addition, the federal government pays the interest for student borrowers with subsidized loans while they are in school or in a period of grace or deferment.

For all new loans issued between July 1, 1998, and October 1, 1998, H.R. 2400 sets the rate paid by student borrowers at the bond-equivalent 91-day Treasury bill rate plus 1.7 percentage points while the borrower is in school, grace, or deferment and 2.3 percentage points when the borrower is in repayment. Lenders will receive a rate that is 50 basis points (0.5 percentage points) higher, and the difference will be paid by the federal government. In addition, the cap of 8.25 percent on borrower's rates will be retained. (Section 8301 also changes the rates on direct and guaranteed parent loans but leaves guaranteed consolidated loans unchanged.)

The costs of these changes are associated with the new, minimum 50-basis-point special allowance payment as well as the increased exposure of the federal government to interest rate subsidies when rates rise sufficiently to cause the borrowers' interest rates to be constrained by the statutory caps. The new interest rate structure will move the interest rates closer to the caps. Moreover, the 91-day Treasury bill is a more volatile instrument than the 10-year bond rate. These costs are partially offset by higher interest payments by borrowers in the direct loan program.

In estimating the expected federal costs of the change in the interest rate formula, CBO used a vector autoregressive model to simulate the variation in interest rates around the CBO's baseline forecast. The model provided probabilities of how often and by how much the simulated rates exceeded the 8.25 percent interest rate cap. These probabilities were then used in CBO's model of the student loan program to estimate changes in subsidy costs.

Social Services Block Grant and TANF. Section 8401 reduces annual funding for the Social Services Block Grant (SSBG) to $1.7 billion in 2001 and thereafter. That change lowers the authorization level by $680 million in 2001 and 2002 and $1.1 billion in each of the following years. Section 8401 also limits the amount that states can transfer from the Temporary Assistance for Needy Families (TANF) program into the Social Services Block Grant to 4.25 percent of TANF funds in 2001 and thereafter. The current limit on transfers is 10 percent.

The section will affect TANF spending in two ways. First, the reduction in the SSBG will tend to accelerate TANF spending as states attempt to make up for some of the reduction in the Social Services Block Grant. Second, the reduction in the limit on transfers will tend to slow down the rate of TANF spending until states find other uses for the funds. The net effect on TANF spending will be small costs or savings in 2001 and 2002 and a $100 million annual cost in 2003 through 2008.

Taken together, CBO estimates that these changes in SSBG and TANF will reduce spending by $625 million in 2001 and $7.3 billion from 2001 through 2008.

CHANGES TO CAPS ON DISCRETIONARY SPENDING

H.R. 2400 establishes two new caps that apply to highway spending and mass transit spending. It also reduces the current cap on nondefense spending in 1999 and the current caps on other discretionary spending in 2000, 2001, and 2002. As shown in Table 3, the new caps on highway and mass transit spending exceed the reductions in the existing caps, thereby increasing the total amount of discretionary spending allowed under the Deficit Control Act by $15.3 billion in 1999 through 2002. (The caps in the Deficit Control Act expire after 2002.)

TABLE 3. Changes in Caps on Discretionary Outlays

	By Fiscal Year, in Millions of Dollars			
	1999	2000	2001	2002
CHANGES IN CAPS ON DISCRETIONARY OUTLAYS				
New Transportation Caps				
Highway	21,885	24,436	26,204	26,977
Mass Transit	4,401	4,761	5,190	5,709
Reduction in Existing Caps	-25,173	-26,045	-26,329	-26,675
Net Changes	1,113	3,152	5,065	6,011

H.R. 2400 also requires that the caps on highway spending specified in the legislation be adjusted each year to reflect differences between current and future estimates of revenues that will be attributed to the Highway Trust Fund. In addition, H.R. 2400 requires that both the caps on highway spending and the caps on mass transit spending be adjusted each year to reflect any changes in technical estimates of the outlays that will result from the funding levels assumed in H.R. 2400.

PREVIOUS CBO ESTIMATE:

On June 17, 1998, CBO transmitted a pay-as-you-go estimate for H.R. 2400, but that estimate contained errors in the totals of direct spending and revenue effects shown in Table 1. This estimate corrects those errors and supersedes the June 17 estimate.

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